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**GENERAL
AMERICAN
OIL COMPANY
OF TEXAS**

34th annual report
year ended june 30, 1970



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General American Oil Company of Texas

34th Annual Report

Year Ended June 30, 1970

FINANCIAL HIGHLIGHTS

	Year Ended June 30, 1970	Year Ended June 30 1969
Gross operating income.....	\$ 49,303,595	\$ 49,312,686
Income before exploration charges.....	\$ 22,965,754	\$ 21,869,878
Net income:		
Before extraordinary capital gains.....	\$ 18,784,992	\$ 18,301,522
Capital gains — net of tax.....	—	644,749
Net income	\$ 18,784,992	\$ 18,946,271
Per common share (1):		
Income before exploration charges.....	\$ 4.09	\$ 3.91
Exploration charges	.75	.64
Income before extraordinary items.....	\$ 3.34	\$ 3.27
Extraordinary capital gains, net of tax.....	—	.11
Net income	\$ 3.34	\$ 3.38
Cash flow (2).....	\$ 36,254,223	\$ 36,070,475
Cash flow per common share (1) (2).....	\$ 6.45	\$ 6.44
Capital expenditures	\$ 16,952,619	\$ 18,326,201
Common stockholders' equity.....	\$199,837,428	\$184,737,207
Dividends paid per common share:		
Cash	\$.60	\$.60
Stock	3%	3%

OPERATING HIGHLIGHTS

	Year Ended June 30, 1970	Year Ended June 30 1969
Crude oil and condensate — net barrels.....	11,050,596	10,767,637
Gas sales—net MCF.....	71,795,144	75,044,456
Wells drilled — net	36	43
Wells operated — gross	1,724	1,809
Wells owned — net	1,801	1,783

(1) Based on average number of shares outstanding, adjusted for stock issued as dividends: 1970 — 5,617,350 shares; 1969 — 5,599,614 shares.

(2) Net income before extraordinary capital gains, increased by non-cash expenses and expensed exploration charges.

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Officers and Directors

General American Oil Company of Texas

OFFICERS

ALGUR H. MEADOWS, *Chairman of the Board and Executive Committee*
WILLIAM P. BARNES, *President*

LEWIS P. O'NEILL, *Executive Vice President**

ROBERT M. SWESNIK, *Senior Vice President, Foreign Operations*

J. DONALD BROWN, *Vice President, Purchasing*

JAMES W. GOSS, *Vice President, Land*

JOE M. HAAS, *Vice President, Engineering*

JERE G. HAYES, *Secretary and Vice President, Legal*

FRED C. HIGGINBOTHAM, JR., *Vice President and Treasurer*

CHARLES M. KENNEDY, *Vice President and Controller*

NORMAN W. KROUSKOP, *Vice President, Production*

GEORGE RHODUS, *Vice President and Assistant to the President*

MALCOLM E. WILSON, JR., *Vice President, Geology*

JOHN T. REYNOLDS, *Assistant Vice President, Production*

MARTIN W. VERNON, *Assistant Vice President, Geology*

BRYAN T. CRENSHAW, *Assistant Treasurer and Assistant Secretary*

DONALD C. APELAND, *Assistant Secretary*

JOHN C. COOPER, *Assistant Secretary*

EXECUTIVE COMMITTEE

ALGUR H. MEADOWS, *Chairman*

WILLIAM P. BARNES

LEWIS P. O'NEILL*

ROBERT M. SWESNIK

DIRECTORS

ALGUR H. MEADOWS, *Chairman, Dallas, Texas*

RUSHTON L. ARDREY, *Dallas, Texas*

WILLIAM P. BARNES, *Dallas, Texas*

PAUL A. CONLEY, *New York, New York*

FREDERICK H. CONNALLY, *Dallas, Texas*

J. J. DANIEL, *Jacksonville, Florida*

SYLVESTER DAYSON, *Dallas, Texas*

JOSEPH W. DAVIN, *Jacksonville, Florida*

CHARLES W. LEWIS, *New York, New York*

PAUL W. MATTHEWS, *Toronto, Canada*

FREDERICK M. MAYER, *Dallas, Texas*

LEWIS P. O'NEILL, *Dallas, Texas*

CHARLES B. SHERROUSE, *Monroe, Louisiana*

GORDON SIMPSON, *Dallas, Texas*

JOHN M. STEPHENS, *Tyler, Texas*

JAMES R. STOCKTON, JR., *Jacksonville, Florida*

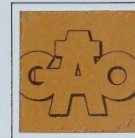
ROBERT M. SWESNIK, *Dallas, Texas*

JIM M. VAUGHN, *Tyler, Texas*

BROWN L. WHATLEY, *Miami, Florida*

*Retired August 1, 1970.

See "PERSONNEL", page 8, for changes in Directors, Executive Committee and Officers made at Directors' Meeting of August 21, 1970.



President's Letter

TO THE STOCKHOLDERS:

Results for the fiscal year just ended were on the whole satisfactory and represent progress during a difficult year for the oil and gas industry. Expenses and taxes rose without compensatory increases in the price of crude oil or woefully under-priced natural gas. An obvious energy shortage is belatedly beginning to attract the attention of the consumer, his professional champions and political representatives. This attention should be directed to the crucial question of whether or not the present price and tax incentives provide a favorable environment for a strong domestic industry that can and will support the level of exploratory drilling necessary to solve the energy problem insofar as oil and gas are concerned. In considering this question, other questions should be pondered. Why has domestic drilling activity sunk to a 27-year low? What are the immediate prospects for a pick-up in activity? A sincere and honest consideration of these questions will inevitably lead to the conclusion that realistic prices for oil and gas are just a beginning. An informed public and a constructive political climate are needed too. A good first step would be a responsible disposition of the natural gas pricing controversy. After sixteen years of Federal Power Commission hearings and related litigation in the Federal Courts, it would be helpful to gas producers to know with certainty the selling price of their product, particularly so if the price were by some regulatory miracle, fair and reasonable.

GAO's management is confident that the foregoing issues will be ultimately resolved favorably. The Company is, therefore, increasing its domestic exploratory drilling in the face of declining activity by others. Shareholders' attention is directed to the Financial Highlights on the first page of this report where, for the first time, "Income before exploration charges" is set forth. This is also shown on a per-share basis. This is included to facilitate understanding of the investment the Company is making in future growth. Exploration by a natural resources company is the equivalent of research and development expenditures by an industrial company. With increasing commitments to exploration, profits may be diminished in some years. Exploration charge-offs in the first quarter of the current fiscal year are expected to lower profits for this period, although management feels that prospects of capitalizing on opportunities uncovered by recent drilling are excellent.

The Company is now in excellent financial condition and the strength of its Balance Sheet in a time of financial crisis for many companies is a source of pride and a foundation for further progress and growth.

Yours very truly,


President

September 11, 1970
Dallas, Texas

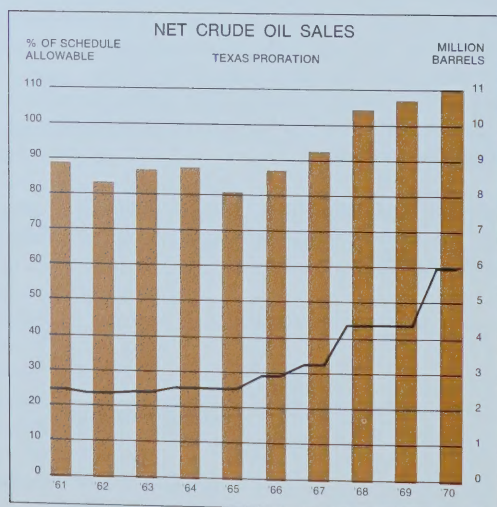
Domestic Operations

ACQUISITIONS

During the fiscal year, the Company considered 132 submittals of producing oil and gas properties. Negotiations resulted in successful contracts to purchase three of these submittals. Two of these acquisitions were closed during the fiscal year. A portion of the third and largest acquisition was closed in July, 1970 and the remainder will be in February, 1971. The operating interests acquired were located largely in South, East and West Central Texas with royalty interests scattered from East Texas through Arkansas, Oklahoma and Mississippi. The total consideration for these acquisitions was 2.3 million dollars in cash and production payments. Company engineers estimate that these purchases have added approximately 1.9 million barrels of oil and 4.3 billion cubic feet of gas net to the Company's interest.

DRILLING

The Company drilled 38 wells and participated in 18 drilled by others, for a total of 56 wells. This compares with 29 drilled by GAO and 46 by partners in 1969, for a total of 75 wells. The Company's interest was 33 net wells in 1970, compared with 39 in 1969. Of the 33 net wells, 16.8 were productive of oil or gas and 16.2 were dry.



Although the gross number of wells decreased 9 from the previous year and the actual footage drilled decreased from 660,300 feet in 1969 to 535,800 feet in 1970, the average depth increased from 7,419 feet per well in 1969 to 9,568 feet per well in 1970.

In addition to the above, 44 productive oil and gas wells were drilled on leases in which the Company owns royalty or net profit interests.

PRODUCTION

The Company, at June 30, 1970, owned interests in 7,577 oil and 1,250 gas wells, equivalent to 1,416 net oil and 183 net gas wells, or a total of 1,599, compared with 1,581 on June 30, 1969. General American operated 1,527 wells at June 30, 1970, compared with 1,612 during the previous year.

For fiscal 1970, net domestic oil and condensate sales were 9,357,299 barrels, a 2% increase over the prior year's sales of 9,182,958 barrels. Strong demand pushed scheduled well allowables in Texas from 46.31% in 1969 to 60.38% in 1970, a 30.4% increase. As a result, sales of oil and condensate in Texas were 5,332,614 barrels, a 9.6% increase over 1969.

Net gas sales were 69,705,121 MCF for fiscal 1970, down 4.6% from 1969. For the last two years, gas sales have represented the maximum efficient rate of production of the Company's gas wells. The lower level of sales was due to a natural decline in deliverability which can only be averted by additional exploratory and development drilling. The Company has no substantial gas properties in the United States from which gas is not now being marketed.

Details of oil and condensate sales are shown on page 5 and gas sales on page 9.

ALASKA

In last year's Annual Report, a letter insert was included outlining the two transactions with Humble Oil & Refining Company, in which Humble agreed to advance all funds for future exploration, development and operation of the two State of Alaska leases

acquired from Messrs. Tom Miklautsch and C. Burglin of Fairbanks, Alaska, and the 15% interest in four State of Alaska leases acquired by option from Hamilton Brothers Exploration Company. GAO will receive 33 1/3% of the net profits derived from each venture. Hamilton Brothers Petroleum Corporation, in its annual report, stated "A major dual-zone oil discovery was made on the North Slope of Alaska in the Prudhoe Bay area", referring to the No. 1 Point Storkersen well; however, no detailed information on the well has been released.

Humble Oil & Refining Company joined with Hamilton Brothers Petroleum Corporation and others in drilling the Kup Delta 51-2 well located approximately one mile West of the No. 1 Point Storkersen well. This well is situated on one of the lease blocks in which the Company has a net profits interest. Although no information is being released to the public or to GAO by the operator for competitive reasons, it may be presumed that the first bottom hole location of the well was dry, inasmuch as the well is now being drilled directionally to a new bottom hole location, North of the surface location of the well.

Until additional wells have been drilled and the information made available, the Company cannot appraise the value of the 33 1/3% net profits interests involved in each of the transactions with Humble. Unfortunately, drilling in the Prudhoe Bay area has been delayed because of the controversy involving construction of the Prudhoe Bay-Valdez pipeline. Fortunately, however, General American has recouped its investment in Alaska, and it is hoped that these transactions will add significantly to the Company's profits in future years.

LOUISIANA

At Pointe-a-la-Hache, Plaquemines Parish, Louisiana, General American was successful in drilling two dual oil and gas wells on the new fault block, discovered on the flank of the Pointe-a-la-Hache last year.

The #1 E. W. Gravolet potentialled from the UL-4-B sand for 276 barrels of oil per day through a 10/64-inch top choke, from per-

forations at 10,363 to 10,370 feet. The UL 5 sand flowed oil from perforations at 11,182 to 11,189 feet, producing 365 barrels of oil per day through a 12/64-inch choke — flowing tube pressure was 1,150 pounds per square inch, with 230,000 cubic feet of gas for a gas/oil ratio of 630 to 1. The Company's interest is 67%.

The Gravolet, et al (Dureau) was directionally drilled to encounter all seven oil and gas reservoirs at their optimum structural position. This was accomplished with the well penetrating over 125 feet of oil and gas sands. This well was completed as a dual gas well and potentialled from the UL 4 sand and 2.4 MMCF of gas and 72 barrels of condensate per day, through a 12/64-top choke, with 3,150 pounds of flow pressure from perforations at 10,571 to 10,590 feet, and from the UL 1 sand for 1.6 MMCF of gas plus 24 barrels of condensate per day through a 10/64-inch top choke, with 3,175 pounds of flow pressure from perforations at 9,611 to 9,616 feet. All other producing zones were present,

SALES OF OIL AND CONDENSATE—BARRELS

Year Ended June 30

	<u>1970</u>	<u>1969</u>
<i>United States:</i>		
Texas	5,332,614	4,865,561
Louisiana	2,653,809	2,820,413
Oklahoma	646,354	623,329
New Mexico	438,402	567,226
Kansas	141,883	153,126
California	92,218	96,012
Illinois	23,407	28,299
Other States.....	28,612	28,992
	<u>9,357,299</u>	<u>9,182,958</u>
<i>Canada:</i>		
Alberta	44,718	36,822
British Columbia..	320,475	279,743
Saskatchewan	1,328,104	1,268,114
	<u>1,693,297</u>	<u>1,584,679</u>
	<u>11,050,596</u>	<u>10,767,637</u>

including the oil zones dually completed in the offset well.

Shallow exploration in an undrilled area of the Valentine Salt Dome, LaFourche Parish, Louisiana, established new production this year. Four oil wells and three dry holes have been drilled on this prolific salt dome. Production from seven different oil and gas sands has been established, resulting in two dual-oil wells, one single oil completion and one gas well. The last well, the #47 Valentine, flowed 148 barrels of oil per day through an 8/64-inch top choke, with 1,000 pounds of flow pressure from perforations at 7,024 to 7,031 feet. A complete geological re-evaluation is now being made and additional drilling may be indicated.

In St. Martin Parish, Louisiana, on a lease block of 5,300 acres, General American completed the #1 Jeannerette Lumber and Shingle well as a wildcat discovery for 492 barrels of oil per day, from perforations at 14,895 to 14,900 feet, in an Upper Planulina sand. Only the top 15 feet of this massive 100-foot sand indicated hydrocarbon accumulations, and the well is now making considerable salt water. A second well will be drilled to determine the extent of what may be a very important wildcat discovery.

Developments at Lake Verret, Assumption Parish, Louisiana, were disappointing in that three of the last six wells drilled were dry.

Although future drilling is anticipated, no wells are scheduled in the immediate future pending the completion of a geological study of the lease acre block, utilizing new information gained from recently drilled wells. The Company has a 35% interest in this lease block.

Four shallow gas wells were completed in the Johnson Bayou Gas Unit, Cameron Parish, Louisiana, in which the Company owns a 70% interest. On non-unitized acreage, one shallow oil well and one dry hole were also drilled.

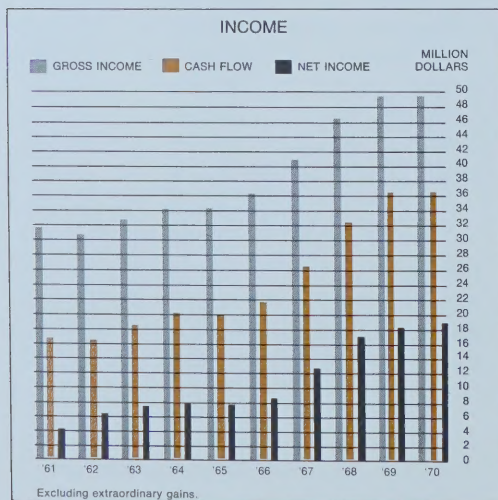
At southeast Gueydan, Vermilion Parish, Louisiana, the Company has contracted the drilling of a 18,400-foot well. By electric log analyses, the well encountered 53 feet of hydrocarbon-bearing sand at depths of 15,770 to 16,040 feet. Drilling is proceeding, and the well will be tested again after reaching the contract depth.

At the State of Louisiana lease sale, the Company acquired 1,046 acres of leases, North of the offshore Block 45 field. Two wells have been completed on these leases, one a dual gas well and the other a single gas well. A development well at the East side of the field was completed for a triple-producer, flowing 4,400,000 cubic feet of gas and 132 barrels of condensate from the upper zone — 3,751,000 cubic feet of gas and 55 barrels of condensate from the middle zone, and 3,322,000 cubic feet of gas and 18 barrels of condensate from the lower zone. South of the Block 45 field, two 9,100-foot wells were unsuccessful.

TEXAS

Levelland field operators have recently completed the formation of several units for the purpose of waterflooding the San Andres producing zone. The Company is participating in four of these units by virtue of committing its interest in 24 leases and 105 producing wells to the projects. It is anticipated that an additional 2,600,000 barrels of oil to the Company's net interest will be recovered as a direct result of water injection.

General American has been elected operator of the 2,190-acre Central Dune San Andres Unit, which was approved for water-



flooding by the Texas Railroad Commission effective July 1, 1970. Company engineers estimate that secondary or waterflood reserves will be in excess of 2,300,000 barrels to the Company's net 46% interest in this unit.

OKLAHOMA

Facilities have been installed for the injection of water into several shallow oil sands under the Company-operated Hoover-Pennsylvanian Unit in Garvin County, Oklahoma, and water injection began in August, 1970. In addition, operations in the Velma Permian III waterflood project have been expanded to include the Cobb lease. Additional waterflood reserves to be recovered from these relatively small projects total 650,000 barrels to General American's 71% net interest.

Canadian Operations

Canadian operations are conducted by General American Oils, Ltd., a wholly-owned subsidiary. During fiscal 1970, the Company participated with varying interests in the drilling of 10 wells, resulting in 4 oil wells, 3 gas wells and 3 dry holes. In addition, 6 gas wells were completed on royalty or carried interest acreage, including 3 on the Company's 25% net profit overriding royalty interest in 221,199 acres in the Fort Nelson area of northeast British Columbia. During this period, the Company also participated in approximately 300 miles of seismic shooting and obtained an equivalent amount of shooting through trade or option. This extensive seismic coverage has enabled General American to delineate several attractive reef anomalies and to acquire a land position in a number of prospective areas.

In fiscal 1970, approximately \$1,000,000 was spent in acquiring interests in 66,202 gross acres, 42,469 net, upon which 12 wells have been scheduled for drilling in 1971.

In the August, 1969 British Columbia Crown Reserve sale, the Company was the successful bidder on a 652-acre lease on the western slope of the Slave Point reef in northeast British Columbia. A gas well has been drilled and tested in the upper 20 feet of the reef, which flowed at a stabilized rate of

8,170 MCF of gas per day, on a bottom hole choke of $\frac{3}{4}$ " and a top hole choke of 1". The well was not drilled through the complete pay section due to difficulties with the gas-cut mud, and the need to move the rig out prior to break-up, which was imminent. It is estimated that the net pay zone will be in excess of 100 feet. The well is presently shut-in waiting on an extension of the pipeline.

At June 30, 1970, the Company owned interests in 741 oil and 56 gas wells, equivalent to 185 oil and 17 gas wells to GAO's interest. Production of oil for fiscal 1970 was 1,693,297 net barrels, up 6.8% over the 1,584,679 produced in 1969.

On June 9, 1970, lightning struck a storage tank at the Coleville field and severely damaged or destroyed many of the storage tanks. These facilities were insured, but the field was shut-in for 33 days. Until all reconstruction has been completed, estimated for October, the field will be operated at approximately 35 to 50% of normal.

Natural gas production totaled 2,090,023 MCF, slightly higher than the 2,046,426 MCF in 1969.

British Columbia Oil Transmission Company, Ltd. was dissolved during the year, and the Company's 29.98% interest in the pipeline has been operated as a joint venture called the "Blueberry-Taylor Pipeline System". It serves the Aitken Creek, Blueberry and Inga fields, and an extension of the line is presently under study.

General American participated in the formation of the Inga Gas Unit No. 3, which became effective August 1, 1970. The initial delivery is expected to be 10 million cubic feet per day, and GAO's interest in the Unit is 10%.

PIPELINE

A wholly-owned subsidiary, General American Pipe Line Company, operates a 208-mile gathering system connected to 1,703 wells in the East Texas field. A 40-mile trunk line extends from this system to Bullard, Texas, where it connects with a main line of The Pure Oil Company, a division of Union Oil Company of California.

NET ACRES UNDER LEASE

as of June 30, 1970

	Producing	Non- Producing
<i>United States:</i>		
Alaska (1)	—	2,108
Arkansas	240	—
California	2,933	161
Colorado	960	—
Illinois	623	—
Kansas	8,043	—
Louisiana	38,869	24,677
Mississippi	142	10,026
Montana	—	352,555
New Mexico (2)....	15,226	52,450
North Dakota	—	127,735
Oklahoma	8,548	61
Texas	72,741	42,294
Wyoming	279	25,429
	<u>148,604</u>	<u>637,496</u>
<i>Canada:</i>		
Alberta (3)	296	74,786
British Columbia (4)	13,456	135,545
Northwest Territories	419	12,354
Saskatchewan	13,930	—
	<u>28,101</u>	<u>222,685</u>
Totals	<u>176,705</u>	<u>860,181</u>

- (1) Represents a 33 $\frac{1}{3}$ % net profits interest in 6,322 net leasehold acres.
- (2) Includes 49,770 acres in which the Company owns oil rights (which are held by gas production) but owns only a net profits interest in gas production.
- (3) Includes Permit as well as lease acres.
- (4) Includes 84,953 acres which represents net profit overriding royalty interests under 358,193 gross acres.

Reserves

Company engineers estimate the proven net reserves as of June 30, 1970 to be 141 million barrels of crude oil and condensate and 968.1 billion cubic feet of gas. There is included in these reserves 2.6 million barrels of crude oil and condensate and 35.3 billion cubic feet of gas applicable to the liquidation of principal and interest of production payments. As a result of drilling, property acquisitions, secondary recovery project development, re-evaluations and active exploitation

of the Company's older producing properties, net reserves increased 2.3 million barrels over last year despite production of just over 11 million barrels of oil.

These estimates do not include reserves recoverable by secondary recovery methods, unless active operations have been started, or unless pilot floods have been successfully operated in the same field or in similar fields in the area.

Included in the above estimates of gas, are reserves not previously carried for the Company's net profit interest in 358,193 acres in northeastern British Columbia, on which several gas fields are located. Approximately 19,000 acres are now productive, with 7 of the 19 producing wells connected to the West Coast Transmission Company Limited's pipeline and the remainder awaiting extension of the pipeline.

Personnel

At the Board of Directors' Meeting on August 21, 1970, James W. Goss, Fred C. Higginbotham, Jr. and Norman W. Krouskop were elected to the Board and to its Executive Committee. Mr. Robert M. Swesnik was elected to the office of Vice Chairman of the Board of Directors, Mr. Goss was elected Executive Vice President, Mr. Higginbotham was elected Senior Vice President and Treasurer and Mr. Krouskop was elected Senior Vice President, Operations. Other promotions included:

Donald C. Apeland, Vice President,
Land

John T. Reynolds, Vice President,
Production

R. O. Campbell, Assistant Vice President,
Production

John C. Cooper, Assistant Vice President,
Land, and Assistant Secretary

Harry L. Frank, Assistant Vice President,
Geology

H. R. Parkison, Assistant Vice President,
Engineering

The retirement of Lewis P. O'Neill, Executive Vice President, on August 1, 1970, marked the completion of 34 years of distinguished

SALES OF GAS — MCF

Year Ended June 30

	1970	1969
<i>United States:</i>		
Texas	5,536,031	5,370,028
Louisiana	60,354,103	64,129,677
Oklahoma	762,405	547,411
New Mexico	2,294,603	2,234,713
Kansas	264,070	235,978
Other States	493,909	480,223
	<u>69,705,121</u>	<u>72,998,030</u>
<i>Canada:</i>		
British Columbia.	311,071	490,246
Saskatchewan ...	1,778,952	1,556,180
	<u>2,090,023</u>	<u>2,046,426</u>
	<u>71,795,144</u>	<u>75,044,456</u>

service with the Company. Mr. O'Neill served as head of the Production Department during a period of great expansion of the Company, and GAO's record of low-cost and efficient operations is the most fitting tribute to his administration. Mr. O'Neill will continue to serve on the Board of Directors.

REMUNERATION

The average number of employees in the various operations and their direct compensation was as follows:

	Number	Compensation
Oil and gas operations...	401	\$3,532,113
SWD, excluding Club....	437	3,364,821
Ponte Vedra Club.....	336	1,227,000
Premier Petrochemical Co.	37	456,490
Meadows Building	40	180,027
	<u>1,251</u>	<u>\$8,769,451</u>

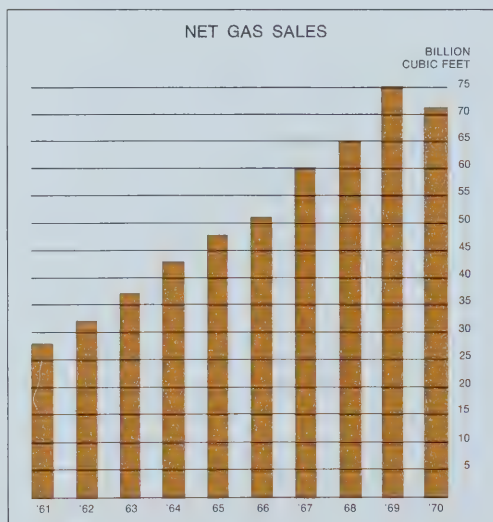
STOCK BONUS PLAN

The Company contributed an amount equal to 10% of direct compensation of participating employees into the Stock Bonus Plan. GAO shares were purchased by the Plan in the open market. At June 30, 1970, the Plan owned 86,038 shares, purchased at an aggregate cost of \$2,427,955, or an average of \$28.22 per share.

RETIREMENT PLAN

The Retirement Plan is self-administered on an actuarial basis. The Meadows Building, which houses the general offices of the Company, is one of the major assets of the Trust, which also has investments in oil royalties, real estate and securities.

The cost was 13.1% of direct compensation of eligible employees, of which 6.6% was for funding the past service deficiency. In lieu of an actuarial retirement plan, SWD has a profit sharing plan — 10% of net profits before income taxes. See "Notes to the Financial Statements".



Stockton, Whatley, Davin and Company

Operations

The fiscal year ended June 30, 1970 was another fine year of performance by SWD, the Company's wholly-owned subsidiary, even though the mortgage industry experienced a generally difficult year as tight money, high interest rates and increased operating costs continued from the prior year. Net operating income before taxes was \$1,950,244, a slight decrease from the previous year's record high of \$1,984,309. In mortgage banking, SWD ranks 1st in Florida and 13th in the United States.

Highlighting the year's performance was a substantial gain in insurance commissions, increased income from improved marketing procedures, improvement in mortgage servicing income and additional income relating to successful closings of special FHA housing projects.

On June 1, 1970, the Company made a substantial purchase of approximately 3,400 acres, consisting of The Deerwood Club, Inc. properties and other adjacent acreage for cash of \$250,000 and installment notes of \$4,100,000, maturing in from three to ten years, and the assumption of \$2,054,000 of debt. These properties are located between Jacksonville and the beach resort acreage. The investment in these properties gives the Company a new dimension, as it diversifies its years of mortgage-financing activities into land development, community planning, design and construction of all types of facilities, as well as their financing. A further description of these properties, together with the Company's land holdings at Ponte Vedra, is included in a special section of this report.

In the face of the prolonged, permanent mortgage-money shortage, and an even tighter short-term money market, the Company was able to continue meeting the financial requirements of its customers for land development,

construction and long-term mortgage loan financing. The volume of mortgage loans of all types closed during the year amounted to \$126,345,000. This is an increase of 37% over the previous year and is by far the largest volume of closings in the Company's history.

Single-family residential loans accounted for 55% of total production, and closings of \$69,585,000 compared favorably with the previous year's volume of \$70,007,000. It is significant that 56% of residential loan production came from the refinancing of existing homes as opposed to 44% from new construction.

Loan closings on income-producing properties increased to \$50,616,500 or 40% of total closings. This is more than double the previous year's volume and represents the highest level of income loan closings in the history of the Company. New commitments received on loans of this type also continued to hold up well and reached \$47,270,000, even though long-term mortgage funds from investors were limited.

The Company closed three FHA project-loans during the year totaling \$6,142,900. In addition, new commitments were negotiated covering 14 FHA projects in nine Florida communities amounting to \$20,904,900. These projects include a total of 1,632 apartment units and a 240-bed nursing home.

Increasing by 12% during the year from \$708,155,000, the Company's mortgage servicing portfolio reached a new high of \$793,813,000, representing 60,426 loans as of June 30, 1970. Since the close of the fiscal year, the portfolio has increased to over \$800 million. Contributing to the net increase in the portfolio was a further 46% decrease in foreclosures, the lowest volume since 1960.

Other new records were established during the year for both insurance premiums and commissions. Premiums of \$6,519,284 produced commissions of \$1,483,200, which represents a 21% increase in income. The Insurance Department has grown to a total of forty agents and solicitors in ten offices throughout the State.

Real estate sales increased 12% over the previous year, reaching a total of \$18,575,833.

Under the terms of a management contract entered into in December, 1961 and modified July 26, 1965, the Company continues to provide management for Arvida Corporation. The Pennsylvania Company, a subsidiary of the Penn Central Transportation Company, owns 58% of the common stock of the Arvida Corporation. For its services, SWD receives an annual fee and a related stock option on 923,698 shares of the common stock of the Arvida Corporation, which is owned by the Pennsylvania Company. This option was at \$7.80 per share and was to expire July 25, 1970. As a result of the difficulties of the Penn Central Transportation Company and to allow time for its new management to consider the management contract, the option was extended to October 23, 1970 at a price of \$7.96. The Company has made no decision with regard to exercising the options.

Real Estate

Stockton, Whatley, Davin & Company is unique among mortgage institutions in that it opened its doors 86 years ago as a real estate and land development company, and later added mortgage banking to its operations. As is more closely shown on a plat on page 12 of the Jacksonville area, the Company's undeveloped and partially developed properties are strategically located for future growth.

Recent authoritative research indicates that metropolitan Jacksonville, in the next 20 years, will double its present population to 1,100,000. Significant also is the projection that 70% of this population increase will be South and East of the St. John's River, within the suburban southeast and outlying southeast areas. Major developments affecting this area are the completion of a new bridge in 1971, linking the East and West sides of the St. John's River; the opening in 1972 of the 1,000-acre campus of the University of North

Florida, with estimated enrollment of 11,000 by 1980; the completion in 1971 of the South campus of the Florida Junior College, where present enrollment is 7,000; and the new highway system, I-95, already being completed. These developments should greatly accelerate the growth of the Deerwood and Ponte Vedra communities.

PONTE VEDRA

After developing many outstanding residential communities and negotiating millions of dollars in real estate sales throughout the State, the Company, in 1942, acquired the Ponte Vedra properties from National Lead Company. Included were the Ponte Vedra Inn and Club and some 15 miles of oceanfront property. Ponte Vedra today, known throughout the world as a distinguished luxury resort with 150 guest rooms and a magnificent 27-hole golf course, is also a highly exclusive residential club community with more than 450 homes located 25 miles east of Jacksonville on the Atlantic Ocean.

Now being developed at Ponte Vedra is a new 134-lot residential area South of the golf course. All but a few of these homesites are on fresh water lagoons, and the first houses are now under construction. The Company also owns some 160 additional acres, including 3,750 feet of ocean frontage immediately South of the Innlet on Ponte Vedra Boulevard.

SOUTH PONTE VEDRA

In 1957, the Company purchased, for future development, approximately 10,000 acres at South Ponte Vedra Beach, and by erecting a causeway dam across the Guano River, created Lake Ponte Vedra, containing 2,900 acres of fresh water. Today, the property has 42 miles of homesite frontage on the Lake, River, Intra-coastal Waterway and the Atlantic Ocean. Land planning studies show South Ponte Vedra Beach to be ideal for an extensive planned community, with schools, churches, golf courses, marinas, shopping centers and a landing strip.

DEERWOOD

Development of Deerwood began ten years ago on a 1,000-acre tract about ten miles South of Jacksonville. Today, it is a residential club community maintained at the same high level of excellence as the Ponte Vedra Club. There are over 100 magnificent homes on its wooded, rolling terrain, with more than 300 developed homesites fronting on placid lakes and lining the championship golf course, on which, for three years, the Greater Jacksonville Open was played.

Within Deerwood's security gates are eleven lakes and eight miles of winding roads with beautifully landscaped acres, hemmed by scenic split rail fencing. Like Ponte Vedra, Deerwood offers the finest tennis, golf and swimming, and a riding and hunt club equal to any in the South.

In addition to The Deerwood Club, the acquisition included 1,325 acres immediately adjacent for future Club expansion. There also is a 240-acre tract that is ideally suited for apartment development and a village-type shopping center.



Southeast Jacksonville

The remaining tracts in the immediate vicinity, all accessible by expressways, will be put to commercial use. They include 334 acres, with a 22-acre lake, to be developed as an office park and distribution center, and across I-95, 129 acres ideally suited for light manufacturing facilities. Additionally, there are three individual sites, totaling 16 acres, fronting on U. S. 1 that are zoned for light industries.

North of the main group of properties, is a 151-acre tract amid rolling woodlands — a prime location for a modular home park with complete recreational facilities. The ever increasing demand, not only in Jacksonville, but throughout Florida, for low-cost housing has brought the modular home industry into prominence with the demand, everywhere, far exceeding the supply.

One last parcel, a 10-acre site, located near Deerwood at a heavily-travelled expressway interchange, is presently being considered for either motel or industrial use.

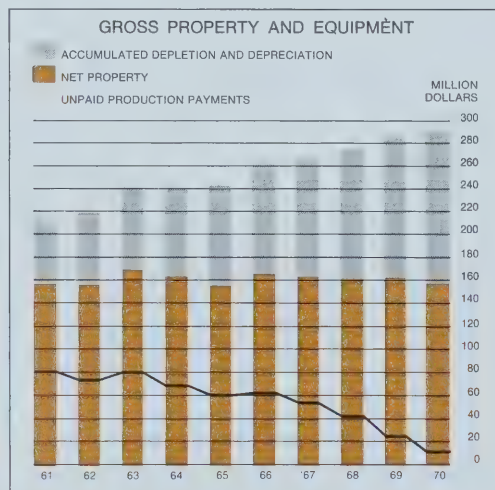
Premier Petrochemical Company

Fiscal 1970 was a very disappointing year for Premier Petrochemical Company. First, the completion of the new 30-ton-per-day melamine plant was delayed from January to August due to start-up difficulties, principally mechanical problems and defective parts. Second, the urea market continued to deteriorate and volume for the year was down. As a result of declining sales, the expensing of start-up costs and the high cost of borrowing, Premier's net loss for fiscal 1970 was \$344,996, compared with net income in 1969 of \$306,559.

Sales revenues, after deducting storage, handling, freight and commission costs, were \$2,668,210, a decline of 25.8% from 1969 revenues of \$3,591,345. As shown below, the increase in domestic sales was more than offset by a decline in export shipments:

	Urea Sales (in tons)	
	1970	1969
Domestic	24,566	21,338
Export	31,264	57,710
Total	<u>55,830</u>	<u>79,048</u>

Industry forecasts predict a 10% growth rate in domestic urea demand for the next few years; however, the present over-capacity and rising European imports provide a poor market environment for domestic urea producers. Only hopes for an expected resurgence of foreign sales, as a result of the program of the Agency for International Development (AID), can provide any degree of optimism for the near-term urea market. Prospects for the melamine market remain good, and it is anticipated that full production from the new plant facility will be attained in September, 1970, which should contribute to Premier's earnings outlook.



Financial Review

INCOME

For the year ended June 30, 1970, net income was \$18,784,992 or \$3.34 per share, an improvement of \$483,470 or 2.6% over the previous year, before extraordinary items.

Crude oil, condensate and natural gas revenues were \$47,418,432, a gain of \$973,469 or 2% over 1969. Sales of crude and condensate increased 2.6% to 11,050,596 barrels, or 30,275 per day, at an average price of \$3.00 per barrel, up from \$2.91 for fiscal 1969. Natural gas sales declined 4.4% to 71,795,144 MCF. The Company includes in natural gas revenues on interstate sales the area rate approved by the Federal Power Commission and

excludes contract prices received above these amounts.

The pre-tax earnings of Stockton, Whatley, Davin & Company were \$1,950,244 for 1970, compared to \$1,984,309 for 1969. In fiscal 1970, consolidated Federal income tax of \$565,000 was allocated to this subsidiary and net earnings, after tax, of \$1,385,244 were included in gross operating income. Premier Petrochemical Company, another wholly-owned subsidiary, sustained a loss of \$344,996, compared to earnings of \$306,559 in the prior year. Its new melamine plant was not on stream before the year ended and start-up costs were expensed.

Cash flow (net income excluding extraordinary items and before deducting depletion, depreciation and exploration charges) was \$36,254,223 or \$6.45 per share, compared to \$36,070,475 or \$6.44 per share last year.

Operating expenses were \$7,151,045, up \$615,520 or 9.4%. Taxes, including those on income, were \$3,930,378, up \$349,914 or 9.8%. With the payout of production payments, interest expense continued to decline to \$1,823,397, a reduction of \$956,324 or 34.4% from the previous year. Interest and other income, due to high yields on short-term investments, amounted to \$2,658,215, up \$526,121 or 24.7%.

Income before exploration charges was \$22,965,754, an increase of \$1,095,876 or 5% over fiscal 1969. Exploration charges for fiscal 1970 were \$4,180,762, up 17.2% over 1969, the inevitable result of greater emphasis on drilling. Included in such costs were non-productive wells drilled and leases surrendered of \$3,437,305, up \$268,135 or 8.5%, lease rentals of \$561,053, up \$163,862 or 41.3%, and other exploration costs of \$182,404.

WORKING CAPITAL

At June 30, 1970, working capital was \$8,493,586, compared to \$10,087,193 a year earlier. The \$1,593,607 reduction in working capital resulted principally from capital expenditures of \$16,952,619 and advances to Premier Petrochemical Company in connection with the melamine plant construction. The current ratio is 1.64 to 1.

OTHER ASSETS

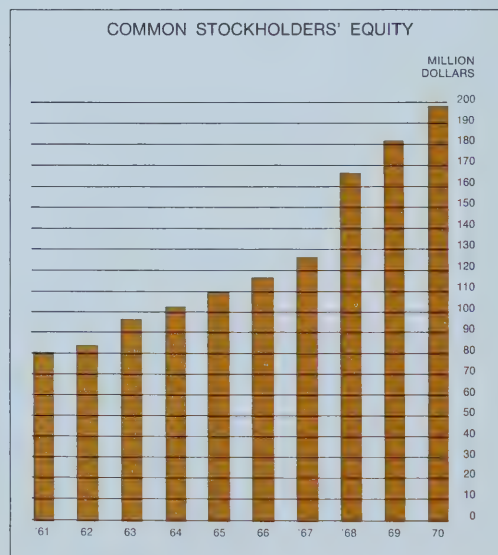
Included in other assets of \$21,150,897 was \$20,742,681 of accounts receivable collectible solely from production. Net profit royalty interests are treated for financial accounting as outside joint interests, and expenditures applicable thereto, less applicable receipts, are charged into these accounts. Upon payout of the related production payments, the funds being applied thereon will revert to and quickly liquidate the net profit balances. During fiscal 1970, net collections on these accounts were \$3,318,804, and these are expected to increase in fiscal 1971. This has no effect on earnings but will further strengthen the cash position of the Company.

PROPERTY

Gross property and equipment accounts were \$291,816,349 at year-end, an increase of \$6,049,478. The balance of unpaid production payments at June 30, 1970 was \$12,903,454, a decrease of \$13,828,337.

CAPITAL

The book equity of stockholders at June 30, 1970 was \$199,837,428, an increase of \$15,100,221 during the year. The Company reacquired 10,000 shares as treasury stock in April and May, 1970 at an average cost of \$27.11 per share.





Accountants' Report

Board of Directors
General American Oil Company of Texas
Dallas, Texas

We have examined the consolidated balance sheet of General American Oil Company of Texas and its consolidated subsidiaries as of June 30, 1970, and the related statements of consolidated income, capital, and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Our opinion expressed herein, insofar as it relates to the amounts included for the Stockton, Whatley, Davin & Company investment and net income, is based upon the report of other accountants who examined the financial statements of that unconsolidated wholly-owned subsidiary.

In our opinion, the accompanying balance sheet and statements of income, capital, and source and application of funds present fairly the consolidated financial position of General American Oil Company of Texas and its consolidated subsidiaries at June 30, 1970, and the consolidated results of their operations, changes in capital, and source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst

Dallas, Texas
August 21, 1970



Statement of Consolidated Income

General American Oil Company of Texas
and Consolidated Subsidiaries

GROSS OPERATING INCOME

	Year Ended June 30, 1970	Year Ended June 30, 1969
Crude oil, condensate and casinghead products (Note A).....	\$34,990,742	\$33,061,328
Natural gas (Note A).....	12,427,690	13,383,635
Net income of Stockton, Whatley, Davin & Company — net of \$565,000 income tax in 1970 and exclusive of extraordinary item of \$370,448 in 1969 included below (Note B)	1,385,244	1,984,309
Net income (loss) of Premier Petrochemical Company (Note B)	(344,996)	306,559
Transportation and other.....	844,915	576,855
	<u>49,303,595</u>	<u>49,312,686</u>

EXPENSES EXCLUSIVE OF EXPLORATION CHARGES

Lease operating expenses	7,151,045	6,535,525
Taxes (Note C)	3,930,378	3,580,464
Depletion and depreciation	13,288,469	14,200,597
Administrative and general expenses	2,802,767	2,478,595
Interest (net) and other items (Interest expense: 1970 — \$1,823,397; 1969 — \$2,779,721)	(834,818)	647,627
	<u>26,337,841</u>	<u>27,442,808</u>

INCOME BEFORE EXPLORATION CHARGES AND EXTRAORDINARY ITEMS

22,965,754 21,869,878

EXPLORATION CHARGES

Non-productive wells drilled and leases surrendered.....	3,437,305	3,169,170
Lease rentals	561,053	397,191
Other exploration costs	182,404	1,995
	<u>4,180,762</u>	<u>3,568,356</u>

INCOME BEFORE EXTRAORDINARY ITEMS

18,784,992 18,301,522

EXTRAORDINARY ITEMS (Capital gains, less applicable income tax of \$137,698)

— 644,749

NET INCOME

\$18,784,992 \$18,946,271

INCOME PER COMMON SHARE

Income before extraordinary items.....	\$3.34	\$3.27
Extraordinary items — net of tax	—	.11
Net income	<u>\$3.34</u>	<u>\$3.38</u>

See notes to financial statements.



Source and Application of Funds

General American Oil Company of Texas
and Consolidated Subsidiaries

SOURCE OF FUNDS

	Year Ended June 30, 1970	Year Ended June 30, 1969
Income before extraordinary items.....	\$18,784,992	\$18,301,522
Add: Depletion and depreciation.....	13,288,469	14,200,597
Exploration charges	4,180,762	3,568,356
Funds provided from operations.....	36,254,223	36,070,475
Disposal of assets, net of income taxes of \$137,698 in 1969.....	2,836,185	1,582,831
Reduction in accounts collectible solely from production — net.....	3,318,804	—
Proceeds from sales of “carved-out” production payments.....	—	4,500,000
Common stock issued for Alaska leases.....	—	2,000,000
Loan proceeds — cash value of life insurance.....	521,649	—
Other	347,679	274,306
Total.....	<u>43,278,540</u>	<u>44,427,612</u>

APPLICATION OF FUNDS

Capital and exploration expenditures:		
Drilling and related equipment costs.....	13,338,334	9,236,591
Gasoline plants and other facilities.....	702,500	895,614
Undeveloped leases and rentals.....	2,827,135	7,292,981
Acquisition of producing properties.....	84,650	1,361,501
Less: Acquisition production payments.....	—	(460,486)
	<u>16,952,619</u>	<u>18,326,201</u>
Liquidation of reserved production payments.....	13,828,155*	17,356,484
Liquidation of “carved-out” production payments.....	4,904,120	5,845,880
Additions to accounts collectible solely from production — net.....	—	2,709,039
Investments in and advances to unconsolidated subsidiaries.....	4,940,248	2,311,315
Other investments	559,344	578,500
Cash dividends to stockholders.....	3,416,561	3,216,462
Purchases of Company’s common shares.....	271,100	—
Total.....	<u>44,872,147</u>	<u>50,343,881</u>
DECREASE IN WORKING CAPITAL.....	<u>\$ 1,593,607</u>	<u>\$ 5,916,269</u>

*Includes \$2,563,141 of proceeds from the interstate sale of natural gas at prices above the FPC approved rates conditionally applied on production payments which was reclassified to current liabilities as a result of the liquidation of a major production payment in 1970.

See notes to financial statements.



Consolidated Balance Sheet

General American Oil Company of Texas
and Consolidated Subsidiaries

ASSETS

CURRENT ASSETS

	June 30, 1970	June 30, 1969
Cash and certificates of deposit.....	\$ 7,506,540	\$ 5,874,229
Prime commercial paper and U. S. Treasury Bills.....	3,500,000	5,250,000
Accounts receivable	8,496,078	7,818,147
Notes and accounts receivable from Stockton, Whatley, Davin & Company.....	1,315,000	1,000,000
Inventories	635,057	717,286
Deferred and prepaid items.....	268,883	33,166
Total current assets.....	21,721,558	20,692,828

INVESTMENTS

Investment in and advances to Stockton, Whatley, Davin & Company (Note B).....	15,137,431	12,502,187
Investment in and advances to Premier Petrochemical Company (Note B).....	6,897,304	4,592,300
Other stocks, notes and debentures — at cost.....	1,250,237	690,893
Total investments	23,284,972	17,785,380

OTHER ASSETS

Accounts collectible solely from production.....	20,742,681	24,061,485
Advances to joint ventures.....	368,988	359,154
Cash value of life insurance — net of loans in 1970.....	39,228	539,480
Total other assets.....	21,150,897	24,960,119

PROPERTY AND EQUIPMENT—at cost (Note A)

Producing oil and gas properties.....	271,967,819	265,737,484
Gasoline plants, pipelines and other equipment.....	9,825,474	9,307,274
Undeveloped leases	10,023,056	10,722,113
	291,816,349	285,766,871
Less accumulated depletion and depreciation.....	132,004,922	122,178,678
	159,811,427	163,588,193
Less unpaid production payments.....	12,903,454	26,732,337
Total property and equipment.....	146,907,973	136,855,856
	<u>\$213,065,400</u>	<u>\$200,294,183</u>

See notes to financial statements.

LIABILITIES AND CAPITAL**CURRENT LIABILITIES**

	<i>June 30, 1970</i>	<i>June 30, 1969</i>
Accounts payable	\$ 12,480,608	\$ 10,076,254
Accrued expenses and general taxes.....	395,917	524,020
Federal income taxes payable.....	351,447	5,361
Total current liabilities.....	13,227,972	10,605,635

DEFERRED INCOME (includes proceeds from

production payments sold of \$4,904,120).....	—	4,951,341
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CAPITAL

Common shares, par value \$5.00 per share:		
Authorized: 7,500,000 shares		
Issued: 1970 — 5,619,486; 1969 — 5,458,227	28,097,430	27,291,135
Capital surplus (includes transfers from earned surplus of \$69,317,849 through 1970 representing the excess of market over par value of common stock dividends)	93,690,344	87,334,381
Earned surplus (Note B)	78,355,690	70,150,384
	200,143,464	184,775,900
Less common shares in treasury — at cost:		
1970 — 10,570; 1969 — 632	306,036	38,693
Total capital	199,837,428	184,737,207

CONTINGENT LIABILITIES (Note E)

	\$213,065,400	\$200,294,183
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Statement of Consolidated Capital

General American Oil Company of Texas
and Consolidated Subsidiaries

	Common Shares		Capital	Earned
	Number	Par Value	Surplus	Surplus
BALANCE JUNE 30, 1968	5,263,944	\$26,319,720	\$78,026,103	\$62,700,268
Net income				18,946,271
3% stock dividend issued January 2, 1969	157,919	789,595	7,490,098	(8,279,693)
Cash dividends (60 cents per share)				(3,216,462)
Stock issued for acquisition of undeveloped Alaska leases (at market value)	36,364	181,820	1,818,180	
BALANCE JUNE 30, 1969	5,458,227	27,291,135	87,334,381	70,150,384
Net income				18,784,992
3% stock dividend: shares issued January 2, 1970	161,259	806,295	6,356,830	(7,163,125)
Cash in lieu of fractional shares				(95,102)
Cash dividends (60 cents per share)				(3,321,459)
Excess of cost over market value of treasury shares issued			(867)	
BALANCE JUNE 30, 1970	5,619,486	\$28,097,430	\$93,690,344	\$78,355,690

See notes to financial statements.

Notes to Financial Statements

General American Oil Company of Texas and Consolidated Subsidiaries

A — ACCOUNTING POLICIES AND PRACTICES

Production Payments

A major portion of the oil and gas properties has been acquired subject to production payments reserved by the sellers, payable, together with interest and production taxes, solely from the proceeds of oil and gas.

It is the Company's policy to treat reserved production payments on producing properties as a part of the acquisition cost of the properties and to record them as liabilities. Since the Company has no direct liability on these, the unpaid balances are shown as a deduction from the property accounts on the balance sheet. The original amounts included in the gross cost of producing oil and gas properties are \$164,625,322 at June 30, 1970 and \$166,777,719 at June 30, 1969.

Consistent with this treatment, the Company includes in its gross operating income the proceeds from the sale of oil and gas applied in liquidation of the production payments. The amounts of such proceeds included under the respective captions during the two years ended June 30, 1970 are as follows:

	1970	1969
Crude oil and gas sales	\$13,443,703	\$21,130,754
Less:		
Taxes	974,614	1,429,752
Interest expense	1,204,075	2,344,518
	2,178,689	3,774,270
Net proceeds	\$11,265,014	\$17,356,484

Interstate sales of natural gas are included in the above net proceeds only to the extent of rates approved or set by the FPC, explained more fully below.

Exploration Charges and Development Costs

Intangible drilling and development costs applicable to non-productive wells are charged to expense when determined to be non-productive while those applicable to productive wells are capitalized and depleted on a unit-of-production basis, as explained below. Exploration charges also include the cost of surrendered leases, annual lease rentals and certain geological and geophysical costs not capitalized.

Costs to acquire interests in undeveloped leases are capitalized and either transferred to producing properties when they become productive or expensed when surrendered.

Interests in undeveloped leases include costs of major geological and geophysical projects which are being amortized over a 5-year period.

Depletion and Depreciation

The Company provides for depletion of producing oil and gas leaseholds and for depreciation of related equipment on a unit-of-production basis. All properties acquired prior to June 30, 1959 have been aggregated for this computation. Properties acquired after that date have been aggregated by significant acquisitions for this purpose. The unit rate for each aggregated group of properties is determined by dividing the total cost, which includes the original amount of the related production payments, less accumulated depletion and depreciation, by the estimated oil and gas reserves of the aggregated properties, including that portion required to liquidate the production payments. The Company annually recomputes the reserves used in the computations. Depreciation of other depreciable property is provided on a straight-line basis over the estimated useful lives of the properties.

Natural Gas Sales Subject to Possible FPC Refund

Interstate sales of natural gas are included in the Income Statement only to the extent of rates approved or set by the Federal Power Commission in its various orders. Contract amounts collected in excess of these approved rates are approximately \$5,678,000 at June 30, 1970 and \$4,336,000 at June 30, 1969. These amounts are included in the "accounts payable" and "unpaid production payments" captions of the Consolidated Balance Sheet.

Income per Common Share

Income per common share is based on the weighted average number of shares outstanding during each year, adjusted for stock dividends.

B — INVESTMENTS

The Company's investments in its wholly-owned subsidiaries, Stockton, Whatley, Davin & Company (SWD) and Premier Petrochemical Company (Premier), are carried at equity in their net assets plus long-term loans from the Company. Information taken from their audited financial statements as of June 30, 1970 and for the year then ended, is summarized as follows:

	SWD	Premier
Current assets	\$69,864,776	\$ 1,282,718
Investment and other assets	6,341,415	8,843
Property and equipment	7,345,039	10,184,753
	<u>\$83,551,230</u>	<u>\$11,476,314</u>
Current liabilities	\$61,204,955(1)	\$ 1,413,698
Long-term debt	9,708,844(1)	7,165,312(1)
Paid-in capital	4,974,907	2,422,869
Earned surplus	7,662,524	474,435
	<u>\$83,551,230</u>	<u>\$11,476,314</u>
(1) Includes amounts due to parent Company	\$ 3,815,000	\$ 4,000,000
Income	\$ 8,201,625	\$ 2,668,210
Expenses	6,816,381(2)	3,013,206
Net income (loss)	1,385,244	(344,996)
Earned surplus July 1, 1969	7,527,280	819,431
Dividend paid	(1,250,000)	—
Earned surplus June 30, 1970	<u>\$ 7,662,524</u>	<u>\$ 474,435</u>
(2) Includes Federal income tax of \$565,000 allocated by parent Company (Note C).		

C — TAXES

There are differences between taxable income and income for financial statement purposes due to intangible drilling costs, percentage depletion, production payment accounting and natural gas sales subject to possible FPC refund (Note A). Because of the permanent nature of most of these differences, the Company's financial tax expense has only been adjusted for the portion of the current year's tax applicable to gas sales subject to possible FPC refund, which have been excluded from financial income but included in taxable income.

Taxes for the year are summarized as follows:

	1970	1969
Federal income taxes incurred	\$ 1,106,789	\$ 137,698
Deferred tax adjustments resulting from natural gas sales subject to possible FPC refund	(240,000)	—
Allocated to Stockton, Whatley, Davin & Company	(565,000)	—
Amount related to extraordinary items	—	(137,698)
	<u>301,789</u>	<u>—</u>
Gross production taxes	2,601,103	2,623,396
Ad valorem taxes	799,193	781,230
Franchise taxes	215,463	158,268
Other taxes	12,830	17,570
	<u>\$ 3,930,378</u>	<u>\$ 3,580,464</u>

Accumulated investment tax credits are used to reduce the computed tax liability of the Company. After application against the current tax liability, the Company has available for future use an investment credit carryforward of approximately \$626,000. No other significant tax carryforwards are available to the Company.

D — RETIREMENT BENEFITS

The Company and its subsidiaries have pension and/or profit sharing plans covering substantially all of their employees.

General American Oil Company of Texas has a non-contributory retirement plan, adopted by most of its subsidiaries, in which the normal cost and 10% of past service cost is funded each year. The actuarially computed value of vested benefits is fully funded. Total cost under this plan was \$411,183 for 1970 and \$388,863 for 1969.

Stockton, Whatley, Davin & Company, a wholly-owned subsidiary, has a profit sharing plan which provides for benefits payable upon retirement or earlier termination of employment. The cost under this plan was \$216,720 for 1970 and \$269,188 for 1969.

E — CONTINGENT LIABILITIES

In 1956, the lessor of land on which the Meadows Building is located brought suit to cancel the lease. The present lessee, the Employees' Retirement Trust, and the Company are named as defendants in the action. The Trust is protected by title insurance and, in the opinion of the Company's counsel, the suit is without merit.

The Company has guaranteed a \$3,000,000 long-term loan of Premier Petrochemical Company in connection with the financing of the construction of a melamine plant.

In connection with a major land acquisition by Stockton, Whatley, Davin & Company, the Company has guaranteed the payment of \$4,100,000 of long-term notes payable to the sellers.



Ten-Year Summary

General American Oil Company of Texas
and Consolidated Subsidiaries

FINANCIAL POSITION — at June 30,

	1970	1969	1968
Current assets	\$ 21,721,558	\$ 20,692,828	\$ 25,455,882
Current liabilities	13,227,972	10,605,635	9,452,420
Working capital	8,493,586	10,087,193	16,003,462
Investments and other assets	44,435,869	42,745,499	37,053,521
Property and equipment	291,816,349	285,766,871	276,910,602
Less — accumulated depletion and depreciation	132,004,922	122,178,678	112,941,856
Less — unpaid production payments	12,903,454	26,732,337	43,685,002
Property and equipment — net	146,907,973	136,855,856	120,283,744
	199,837,428	189,688,548	173,340,727
Less:			
Long-term debt	—	—	—
Deferred income	—	4,951,341	6,294,636
Common stockholders' equity	\$199,837,428	\$184,737,207	\$167,046,091
Common shares outstanding	5,608,916	5,457,595	5,263,944
Common stockholders of record	6,638	6,129	5,885

INCOME STATEMENT — year ended June 30,

Gross operating income	\$ 49,303,595	\$ 49,312,686	\$ 46,690,110
Lease operating expenses	7,151,045	6,535,525	6,326,221
Taxes	3,930,378	3,580,464	3,486,878
Depletion and depreciation	13,288,469	14,200,597	13,098,222
Administrative and general	2,802,767	2,478,595	2,246,896
Interest expense	1,823,397	2,779,721	3,677,025
Interest and miscellaneous income	(2,658,215)	(2,132,094)	(1,445,076)
Income before exploration charges	22,965,754	21,869,878	19,299,944
Exploration charges	4,180,762	3,568,356	2,175,419
Income before extraordinary items	18,784,992	18,301,522	17,124,525
Extraordinary items after taxes		644,749	6,197,880 (3)
Net income	\$ 18,784,992	\$ 18,946,271	\$ 23,322,405
Net income per common share (2)	\$ 3.35	\$ 3.47	\$ 4.43
Cash flow (net income plus depletion, depreciation and exploratory expenses)	\$ 36,254,223	\$ 36,715,224	\$ 38,596,046
Cash flow per common share (2)	\$ 6.46	\$ 6.73	\$ 7.33

COMMON DIVIDENDS — year ended June 30,

Cash	\$ 3,416,561	\$ 3,216,462	\$ 2,761,699
Stock (in number of shares)	161,259	157,919	145,863
Cash — per share	\$.60	\$.60	\$.55
Stock — per share	3%	3%	3%

OPERATING STATISTICS — OIL & GAS OPERATIONS

Texas proration — % of schedule allowable	60.38	46.31	46.31
Net crude oil sales — barrels	11,050,596	10,767,637	10,498,750
Net crude oil sales (daily average)	30,276	29,500	28,685
Net gas sales — MCF	71,795,144	75,044,456	65,933,251
Average price per barrel	\$ 3.00	\$ 2.91	\$ 2.86
Wells operated — gross	1,724	1,809	1,862
Wells owned — net	1,801	1,783	1,815
Annual payroll	\$ 3,532,113	\$ 3,319,023	\$ 3,138,655
Employees — average	401	400	403

- (1) Restated for "pooling of interests" with Premier Petrochemical Company.
- (2) Based on number of shares outstanding at end of each year.
- (3) Represents gain on sale of Fargo Oils Ltd. stock and other capital gains.

1967(1)	1966	1965	1964	1963	1962	1961
\$ 14,565,169	\$ 11,708,612	\$ 10,977,804	\$ 11,796,598	\$ 9,671,783	\$ 23,806,768	\$ 23,120,956
7,367,973	6,950,473	6,060,395	6,084,594	6,702,480	5,811,937	6,620,432
7,197,196	4,758,139	4,917,409	5,712,004	2,969,303	17,994,831	16,500,524
33,467,376	30,860,457	29,297,797	27,007,758	25,171,748	15,131,745	16,005,813
266,970,095	262,524,491	242,520,499	241,086,236	241,708,773	219,729,282	212,892,428
102,177,490	94,133,533	83,747,377	75,893,609	69,931,215	61,590,574	54,243,669
56,542,926	64,511,644	62,772,178	71,574,813	82,665,602	78,421,723	83,594,151
108,249,679	103,879,314	96,000,944	93,617,814	89,111,956	79,716,985	75,054,608
148,914,251	139,497,910	130,216,150	126,337,576	117,253,007	112,843,561	107,560,945
20,000,000	20,426,690	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
1,369,628	2,077,573	105,509	2,971,795	70,869	8,290,463	6,298,091
\$127,544,623	\$116,993,647	\$110,110,641	\$103,365,781	\$ 97,182,138	\$ 84,553,098	\$ 81,262,854
4,532,000	4,400,000	4,275,600	4,069,800	3,960,500	3,470,028	3,431,700
5,451	5,371	5,603	5,833	5,711	4,516	4,751
\$ 41,173,188	\$ 36,340,573	\$ 34,306,259	\$ 34,302,728	\$ 32,932,308	\$ 30,744,250	\$ 31,845,117
6,047,050	5,752,963	5,618,631	5,785,268	5,870,634	5,920,781	5,885,438
3,167,356	2,879,027	2,661,891	2,618,034	2,548,001	2,523,876	2,231,542
11,943,271	10,763,823	9,903,639	10,292,144	9,338,810	8,669,115	9,165,066
1,937,436	1,826,443	1,760,379	1,722,730	1,587,227	1,620,503	1,588,049
4,841,149	5,252,385	5,206,748	5,690,294	6,131,849	5,977,645	5,975,202
(1,162,372)	(941,376)	(819,483)	(974,851)	(971,307)	(955,984)	(728,522)
14,399,298	10,807,308	9,974,454	9,169,109	8,427,094	6,988,314	7,728,342
1,569,355	2,078,795	2,203,257	1,873,592	1,694,893	1,202,800	3,317,089
12,829,943	8,728,513	7,771,197	7,295,517	6,732,201	5,785,514	4,411,253
		163,414	662,342	735,500	177,347	(331,358)
\$ 12,829,943	\$ 8,728,513	\$ 7,934,611	\$ 7,957,859	\$ 7,467,701	\$ 6,402,861	\$ 4,079,895
\$ 2.81	\$ 1.98	\$ 1.86	\$ 1.96	\$ 1.89	\$ 1.85	\$ 1.19
\$ 26,342,569	\$ 21,571,131	\$ 20,041,507	\$ 20,123,595	\$ 18,501,404	\$ 16,274,776	\$ 16,562,050
\$ 5.77	\$ 4.90	\$ 4.69	\$ 4.94	\$ 4.67	\$ 4.69	\$ 4.83
\$ 1,786,400	\$ 1,734,480	\$ 1,672,913	\$ 1,772,040	\$ 1,759,041	\$ 1,385,455	\$ 1,364,847
132,000	128,172	205,768	109,365	175,582	101,928	100,125
\$.40	\$.40	\$.40	\$.40	\$.40	\$.40	\$.40
3%	3%	5%	3%	5%	3%	3%
34.84	31.32	28.21	28.29	26.93	26.85	27.67
9,299,141	8,734,195	8,141,908	8,801,834	8,769,094	8,377,330	8,944,562
25,477	23,929	22,307	24,049	24,025	22,952	24,506
60,718,442	51,846,050	48,520,793	43,601,352	37,770,336	32,791,812	28,507,388
\$ 2.83	\$ 2.82	\$ 2.81	\$ 2.79	\$ 2.80	\$ 2.82	\$ 2.81
1,927	2,028	2,080	2,250	2,425	2,465	2,458
1,861	1,950	1,956	2,061	2,235	2,205	2,253
\$ 3,056,609	\$ 2,959,772	\$ 2,883,122	\$ 2,887,785	\$ 2,875,002	\$ 2,868,531	\$ 3,095,533
417	420	422	435	447	460	505



Agents

General American Oil Company of Texas

GENERAL OFFICES

MEADOWS BUILDING
Dallas, Texas 75206

TRANSFER AGENTS

REPUBLIC NATIONAL BANK OF DALLAS
Pacific and Ervay Streets, Dallas, Texas 75201

THE CHASE MANHATTAN BANK
NATIONAL ASSOCIATION
80 Pine Street, New York, New York 10015

REGISTRARS

FIRST NATIONAL BANK IN DALLAS
1401 Elm Street, Dallas, Texas 75201

FIRST NATIONAL CITY BANK
55 Wall Street, New York, New York 10015

DIVIDEND DISBURSING AGENT

REPUBLIC NATIONAL BANK OF DALLAS
Pacific and Ervay Streets, Dallas, Texas 75201

